



CITY COUNCIL AGENDA REPORT

DATE: November 14, 2019

AGENDA OF: November 25, 2019

DEPARTMENT: City Council

SUBJECT: City Council Ad-Hoc Revenue Committee (CN)

RECOMMENDATION: Motion to 1) accept a report regarding the recent work of the City Council Ad-Hoc Revenue Committee, and 2) continue with the City Council Ad-Hoc Revenue Committee and extend its timeframe through June 30, 2020.

BACKGROUND: During the City Budget Hearings on May 8, 2019, Council established an Ad-hoc Revenue Committee (the Committee) for the purpose of exploring and recommending revenue-enhancing options for City Council action. Subsequently, on June 25, 2019, Council further approved the Committee's scope of work and membership.

The Committee's focus was established to be: "...revenue measures and options that can be implemented or brought forward over the next six months and potentially on the March 2020 election ballot. The Ad-Hoc Revenue Committee will review all potential revenue options including but not limited to the transient occupancy tax (TOT), property transfer tax, vacancy tax, and business license tax; and develop recommendations for City Council consideration. The Ad-Hoc Revenue Committee will also receive a report and develop recommendations related to fees." The Council appointed Councilmembers Brown and Mathews.

To date, the Committee has achieved the following:

- Heard reports by the City's Action Lab II teams regarding various proposals and recommendations to aid in the City's fiscal situation. Action Labs II was a city-wide program to creatively explore ideas to bridge existing and projected fiscal deficits. The 2019 effort took the top recommendations from the 2018 Action Lab I teams and did further research and development of the possible proposals, which included expenditure savings, revenue increases, or both.

The Action Lab II topics presented were*:

- Transient Occupancy Tax
- Real Estate Transfer Tax
- Development Impact Fee – Public Safety

*Note: Please see Attachment 1 for the Action Lab II full summary, with descriptions and fiscal impacts. The total list also includes the following:

- Investment Policy Review

- Acceleration of Cost Recovery Increases
 - Voluntary Time Off
 - Utility Users Tax
 - Overtime Analysis
- Determined to focus on Transient Occupancy Tax (TOT) for the March 2020 election ballot.
- Contracted with Gene Bregman & Associates to do a poll of likely voters in September 2019.
- Met with hoteliers and the Santa Cruz Chamber of Commerce regarding a potential increase of the City's TOT.
- Began drafts of financial educational materials to support further TOT conversations.
- Decided to recommend to Council that the Committee's work and membership be continued up to the timeline needed to bring forth potential actions to Council for the November 2020 election ballot.

DISCUSSION: Based upon the work of the Action Lab II teams, the Committee determined to pursue TOT for possible inclusion in the March 2020 election ballot. In order to do this, the team had to quickly work to do a poll of likely voters to gauge the possible receptiveness of a TOT increase as well as do outreach with the industry.

Gene Bregman and Associates conducted the poll in September 2019. The polling summary advised that:

- With one important caveat, the City of Santa Cruz was in good position to pass a general TOT increase of either two or three percent. The caveat was that the polling results reflected opinions at that point in time and results would likely change if there were organized opposition to the measure.
- There were concerns that the current environment would be difficult for the City to pass a TOT increase. These included low approval ratings for the City Council and some City departments, a lack of sufficient proportional consensus that the City is in significant need of more money, and the possibility of organized opposition.

Additionally, the Committee conducted exploration meetings with hoteliers and the Santa Cruz County Chamber of Commerce regarding the possible increase of the TOT rate. Given the strong feedback at these interactions, the team determined that more education, outreach and collaboration were definitively needed prior to proceeding with a TOT proposal to the Council.

To support such next steps, the Committee began working with staff to draft informational materials about the City's budget situation, program needs, and possible applications of additional TOT revenue proceeds. In order to complete these steps and to look further into the top Action Lab II recommendations, the Committee needs additional time and is requesting to continue its work through June 30, 2020, by which time the Committee will bring further recommendation(s) to Council for placement on the November 2020 election ballot.

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ATTACHMENTS:

1. City of Santa Cruz Action Lab Phase II Proposals & Recommendations
2. Gene Bregman and Associates City of Santa Cruz Memo 2019